

FDIC State Profile

SUMMER 2003

Montana

Non-farm job growth in Montana was sixth in the nation as of January 2003, led by strong growth in the construction sector.

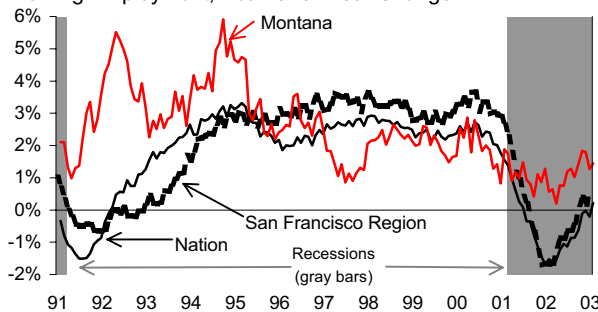
- Non-agricultural employment in Montana grew 1.4 percent year-over-year for January 2003, surpassing the nation (see Chart 1).
 - Although the construction sector added the greatest number of employees during this period, employment in most other sectors also improved.
 - The manufacturing sector experienced the largest decline in employment, decreasing by 5 percent year-over-year as of January 2003. Slowing in the manufacturing sector was anticipated in part with the recently announced closing of Stimson Lumber in Libby. This closure was estimated to result in the loss of about 300 jobs at that mill, and another 410 in related businesses.
 - Professional services employment experienced a year-over-year decline of 1.0 percent.
 - While government employment remained flat in January 2003 on a year-over-year basis, Montana faces a Fiscal Year 2004 estimated biennial budget deficit of \$232 million, approximately 9 percent of the present budget,¹ which may hamper new job creation in this sector.
- The Montana economy relies heavily on the stressed agricultural sector.²
- Drought during the past four years hurt some areas of the state's agricultural sector (see Map 1). Wheat crop yields dropped to levels not seen since 1988.
 - Government subsidy payments to agricultural producers in Montana were the fourth highest in the nation, accounting for 157 percent of net farm income in 2001 (see Map 2). Net farm income would have been negative without the subsidies.
 - Cattle producers, which generate more than half of Montana's agricultural revenues, are also feeling the effects of the drought. Dry conditions have significantly reduced the supply and quality of hay and grazing pastureland.

¹State Budget Update: February 2003, National Conference of State Legislatures.

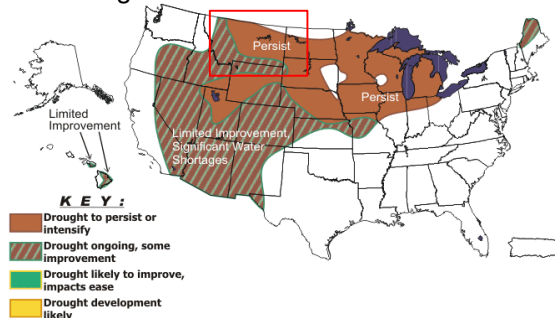
²Agriculture represented 3.9 percent of Montana's 2000 Gross State Product.

Chart 1: Employment in Montana Was Mildly Affected by the Recession

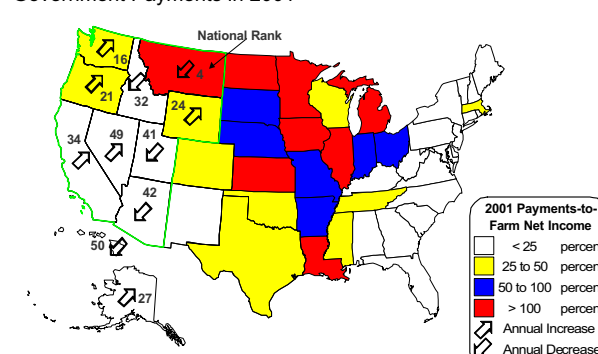
Non-Ag Employment, Year-Over-Year Change



Map 1: Dry Conditions May Persist in Montana, According to the NOAA's Outlook



Map 2: Montana Farmers Received Significant Levels of Government Payments in 2001



Persistent drought and a weakened agricultural sector could pressure Montana's farm lenders.

- Just under half of Montana's banks hold agricultural loan³ concentrations in excess of 100 percent of Tier 1 capital.
- Loan delinquency levels among this group of lenders have stabilized, but at a relatively high level (see Chart 2). As of December 2002, these institutions reported a median net charge off-to-average total loan ratio of 0.12 percent, up from 0.07 percent one year earlier, but below a 1.4 percent median net charge off ratio reported by agricultural lenders nationwide.

Insured institutions headquartered in Montana have reported an increase in construction and development (C&D) lending in response to strong growth in Montana's construction sector.

- Construction activity expanded significantly in Montana during 2002, especially housing construction. Residential permits were 48 percent higher in 2002 than in 2001.
- C&D lending has increased among insured institutions headquartered in Montana. As of fourth quarter 2002, the median C&D loan-to-Tier 1 capital ratio was 19.2 percent, a nearly ten-fold increase over a decade earlier, which suggests that some institutions might not have experience managing higher C&D loan concentrations through a full real estate cycle (see Chart 3). Construction loan concentrations are even rising among insured institutions based in rural Montana, which reported a median C&D loan-to-Tier 1 capital ratio of 16.6 percent as of year-end 2002.

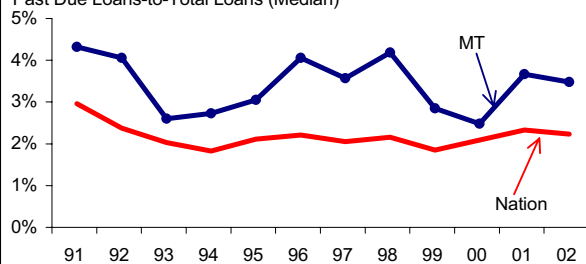
Lower interest rates during 2001 and 2002 have dampened earnings performance among Montana's insured institutions.

- Insured institutions headquartered in Montana reported a median after-tax return on average assets (ROA) ratio of 1.16 percent through December 2002. The median *pre-tax* ROA, which is less distorted by institutions that have elected Subchapter S tax status,⁴ was 1.68 percent, an eleven year low. However, this compares favorably to a national median of 1.44 percent.

³ Agricultural loans include agricultural lines and farm real estate loans.

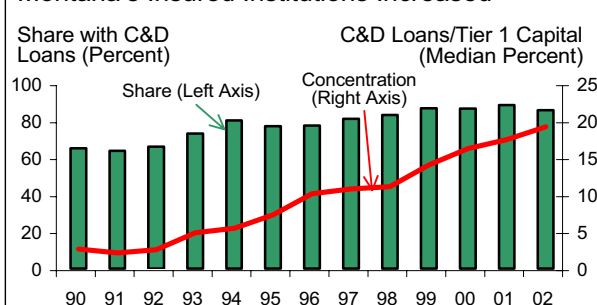
⁴ Eighteen of Montana's 84 insured institutions had elected Subchapter S status as of December 31, 2002. Banks with a Subchapter S tax election do not pay taxes at the corporate level. As a result, after-tax ROA ratios among these institutions tend to be higher than for other insured institutions.

Chart 2: Loan Delinquencies Among Montana's Agricultural Lenders* Remained
Past Due Loans-to-Total Loans (Median)



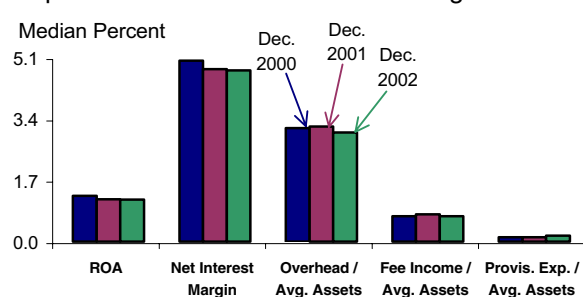
Note: *Data limited to insured institutions with agricultural lines and farm real estate loans exceeding 100 percent of Tier 1 capital.
Source: Bank Call Reports (December of each year)

Chart 3: Construction Concentrations Among Montana's Insured Institutions Increased
Share with C&D Loans (Percent) C&D Loans/Tier 1 Capital (Median Percent)



Notes: C&D = construction and development.
Source: Montana Bank and Thrift Call Reports (December of each year)

Chart 4: Margin Declines and Provision Expense Increases Pressured Earnings
Median Percent



Note: ROA = return on average assets
Source: Montana Bank and Thrift Call Reports

- Recent earnings trends were driven by interest rate-related margin compression and rising provision expense ratios, partially offset by lower overhead expenses (see Chart 4).

Montana at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	84	86	89	90	94
Poor Management (# 3,4,5)	5	7	7	6	6
New Institutions (# , 3 years)	3	2	1	1	2
New Institutions (# ,; 9 years)	6	5	3	4	5
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.24	8.94	9.39	9.27	9.64
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	3.04%	3.16%	2.07%	2.29%	2.64%
Past-Due and Nonaccrual . = 5%	20	23	16	14	24
ALLL/Total Loans (median %)	1.47%	1.50%	1.48%	1.50%	1.61%
ALLL/Noncurrent Loans (median multiple)	1.43	1.20	1.53	1.48	1.35
Net Loan Losses/Loans (aggregate)	0.31%	0.22%	0.22%	0.28%	0.26%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	2	1	1	1	2
Percent Unprofitable	2.38%	1.16%	1.12%	1.11%	2.13%
Return on Assets (median %)	1.16	1.17	1.27	1.23	1.28
25th Percentile	0.88	0.92	1.01	1.06	0.98
Net Interest Margin (median %)	4.74%	4.78%	5.01%	5.03%	5.16%
Yield on Earning Assets (median)	6.96%	8.27%	8.83%	8.37%	8.90%
Cost of Funding Earning Assets (median)	2.19%	3.39%	3.75%	3.45%	3.65%
Provisions to Avg. Assets (median)	0.16%	0.12%	0.13%	0.09%	0.07%
Noninterest Income to Avg. Assets (median)	0.70%	0.76%	0.70%	0.73%	0.72%
Overhead to Avg. Assets (median)	3.03%	3.19%	3.15%	3.22%	3.36%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	73.48%	74.06%	73.94%	72.01%	68.92%
Loans to Assets (median %)	63.14%	61.79%	64.00%	61.51%	58.99%
Brokered Deposits (# of Institutions)	8	8	13	10	11
Bro. Deps./Assets (median for above inst.)	4.54%	1.41%	1.53%	0.78%	1.87%
Noncore Funding to Assets (median)	13.91%	14.07%	15.76%	13.28%	11.37%
Core Funding to Assets (median)	74.24%	72.96%	73.88%	76.71%	77.64%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	31	32	33	35	36
National	16	17	18	18	17
State Member	33	33	33	32	36
S&L	2	2	2	2	2
Savings Bank	2	2	3	3	3
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	69	6,877,379	82.14%	48.20%	
Billings MT	6	6,319,156	7.14%	44.28%	
Great Falls MT	5	380,412	5.95%	2.67%	
Missoula MT	4	692,697	4.76%	4.85%	